

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:**

RECEIVED
MAY 19 2003
Oil Conservation Division

**CASE NO. 12888
DE NOVO**

**APPLICATION OF THE FRUITLAND COALBED METHANE STUDY
COMMITTEE TO AMEND RULES 4 AND 7 OF THE SPECIAL POOL RULES
AND REGULATIONS FOR THE BASIN-FRUITLAND COAL GAS POOL AND
FOR THE TERMINATION OF THE CEDAR HILLS FRUITLAND BASAL
COAL GAS POOL AND THE CONCOMITANT EXPANSION OF THE BASIN-
FRUITLAND COAL GAS POOL, RIO ARRIBA, SAN JUAN, MCKILEY AND
SANDOVAL COUNTIES, NEW MEXICO.**

**PRE-HEARING STATEMENT OF THE NEW MEXICO OIL CONSERVATION
DIVISION**

NAMES OF PARTIES AND ATTORNEYS:

The names of the parties and their attorneys are correctly set forth in the Certificate of Mailing appended to ConocoPhillips Company's Amended Pre-Hearing Statement filed on May 14, 2003, among other placed.

STATEMENT OF THE CASE:

The Division staff adopts the Statement of the Case set forth in ConocoPhillips Amended Pre-Hearing Statement filed on May 14, 2003, with the exception of the two final paragraphs on Page 3 thereof.

THE DIVISION'S POSITION:

The Division staff believes that the evidence presented at the Division Examiner hearing in this case was insufficient to warrant two-well-per-320-acre spacing in the high productivity area absent further study. The parties have indicated that additional technical evidence has been developed and will be presented to the Commission. The Division staff is not privy to this additional evidence, and therefore does not know if it

affords a sound basis for the infill order sought by the operating parties. Accordingly, the Division staff files this pre-hearing statement in order to reserve the right to offer rebuttal evidence in the event that, after hearing the presentations of the operating parties, the staff continues to believe that further study is required.


WITNESS

Steve Hayden, Geologist, District III, Oil Conservation Division
Estimated Time: Not to exceed 1 and 1/2 hour

PROCEDURAL MATTERS TO BE RESOLVED

Motion in Limine to Exclude the Testimony, Evidence and Argument of San Juan Coal Company, filed by BP America Production Company and Burlington Resources Oil & Gas Company LP on May 13, 2003.

RESPECTFULLY SUBMITTED,

A handwritten signature in cursive script, reading "David K. Brooks", is written over a horizontal line.

David K. Brooks
Assistant General Counsel
Energy, Minerals and Natural
Resources Department of the State of
New Mexico
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505)-476-3450

Attorney for The New Mexico
Oil Conservation Division

CERTIFICATE OF MAILING

I hereby certify that on this _____ day of May, 2003, a copy of the foregoing Pre-Hearing Statement of the New Mexico Oil Conservation Division was served on each of the following counsel by first class mail directed to the addresses stated below.

Mr. William F. Carr
Holland & Hart
P.O.Box 2208
Santa Fe, NM 87504-2208
Attorney for BP America Production Company
and Williams Production Company

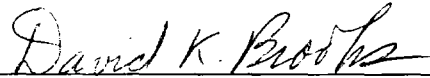
Mr. W. Thomas Kellahin
Kellahin and Kellahin
P.O.Box 2265
Santa Fe, NM 87504-2265
Attorney for Burlington Resources Oil & Gas Company LP

Mr. James G. Bruce
P.O.Box 1056
Santa Fe, NM 87504
Attorney for San Juan Coal Company

Mr. Ned Kendrick
Montgomery & Andrews
P.O.Box 2307
Santa Fe, NM 87504-2307
Attorney for Dugan Production Company

Mr. Larry P. Ausherman
Modrall Sperling Roehl Harris & Sisk
P.O.Box 2168
Albuquerque, NM 87103-2168
Attorney for San Juan Coal Company

Charles E. Roybal
300 W. Arrington #200
Farmington, NM 87401-8433
Attorney for BHP Minerals



David K. Brooks

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

RECEIVED

MAY 15 2003

Oil Conservation Division

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION
FOR THE PURPOSE OF CONSIDERING:**

**NOMENCLATURE
CASE NO. 12888
DE NOVO
ORDER NO. R-8768-C**

**APPLICATION OF THE FRUITLAND COALBED METHANE STUDY COMMITTEE
TO AMEND RULES 4 AND 7 OF THE SPECIAL POOL RULES AND REGULATIONS
FOR THE BASIN-FRUITLAND COAL GAS POOL AND FOR THE TERMINATION
OF THE CEDAR HILLS FRUITLAND BASAL COAL GAS POOL AND THE
CONCOMITANT EXPANSION OF THE BASIN-FRUITLAND COAL GAS POOL, RIO
ARRIBA, SAN JUAN, MCKINLEY AND SANDOVAL COUNTIES, NEW MEXICO.**

CONOCOPHILLIPS COMPANY'S AMENDED PRE-HEARING STATEMENT

STATEMENT OF THE CASE

In 2002, the Fruitland Coalbed Methane Study Committee applied to the New Mexico Oil Conservation Division to increase development densities for coalbed methane wells in the Basin-Fruitland Coal Gas Pool (71629) by amending Rules 4 and 7 of the Special Pool Rules and Regulations for the pool originally established in 1988 under Order No. R-8768. The Committee is a long-standing joint industry-government technical study committee comprised of representatives from the New Mexico Oil Conservation Division's Aztec District office, the Bureau of Land Management and from numerous operators of coalbed methane wells in the San Juan Basin. The primary purpose of the Committee is to evaluate past and ongoing development in the Basin-Fruitland Coal Gas Pool and the Cedar Hills-Fruitland Basal Coal Gas Pool (74500) and make recommendations to the Division on the future development of the pools.

In 1999, the Committee began an evaluation of geologic and production data to determine whether the 320-acre development density for the Basin-Fruitland Coal Gas pool should be maintained. Based on its evaluation, the Committee determined that the ultimate recoveries of gas from the pool could be increased through infill development.

The Committee filed its Application in this case on June 14, 2002. The Application set forth two requests: (1) to increase the well density throughout the entire pool to allow for a maximum of 2 wells per 320 acre gas proration and spacing unit; and (2) In the alternative, the adoption of the increased density rules for the "Low Productivity Area" described in the Application, and for

special administrative procedures for infill drilling in the remaining “High Productivity Area” of the pool.¹

On October 15, 2002, following the hearing on the Committee’s Application, the Division issued Order No. R-8768-C amending the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool (71629) to allow for infill development within the pool. Order No. R-8768-C formally established two specifically described areas within the Basin-Fruitland Coal Gas Pool: (1) The Low-Productivity Area (“LPA”) and (2) the High-Productivity Area (“HPA”) inside the LPA. The HPA is situated within what is often referred to in the industry as “the Fairway”. The LPA is identified in Order No. R-8768-C as the entirety of the Basin-Fruitland Coal Pool, the horizontal limits of which are described in Paragraphs 6 and 10 of the Order, except the HPA. The HPA is described in Paragraph 13 of the Order. The Order also consolidated the acreage within the former Cedar Hill-Fruitland Basal Coal Pool (74500) into the Basin-Fruitland Coal Gas Pool.

At the Division hearing, ConocoPhillips, (then Phillips Petroleum Company), supported immediate infill development within the LPA and further supported eventual infill development within the HPA if justified by analysis of subsequently collected production and reservoir data. It was ConocoPhillips’s view that, at the time of the Application, additional data and study were needed before unrestricted infill development throughout the HPA could be immediately justified.

As an alternative to unrestricted infill development in the HPA, ConocoPhillips advocated the adoption of special administrative procedures for infill well proposals during the interim data

¹ In addition, the Application sought an amendment of the well location provision of Rule 7(a) of the Special Rules and Regulations to conform with the well location requirements for the Basin-Dakota pool as follows:

(i) To provide that wells located outside a federal exploratory unit may be drilled anywhere within a standard 320-acre GPU provided such wells are located no closer than 660 feet to the outer boundary of the GPU nor closer than 10 feet from any interior quarter or quarter-quarter section line or subdivision inner boundary; and

(ii) To further provide that wells located within federal exploratory units may not be closer than 10 feet to any section, quarter section, or interior quarter-quarter section line or subdivision inner boundary, provided however that:

- (a) wells shall not be closer than 660 feet to the outer boundary of a federal exploratory unit;
- (b) wells located within the unitized area but adjacent to an existing or prospective GPU containing any non-committed tract or partially committed tract shall be no closer than 660 feet to the outer boundary of such GPU; and
- (c) further, wells located within the unitized area but within a non-committed or partially committed GPU shall not be closer than 660 feet to the outer boundary of that GPU.

collection period that provided for advanced notification to interested parties, along with an opportunity to comment and object. (Phillips Petroleum Company's Pre-Hearing Statement, July 5, 2002.) Its position differed from the Committee Application only in the respect that the Application provided for notification to offset operators, while ConocoPhillips advocated that all working interest owners in the adjacent spacing unit be notified in those circumstances where the operator of the adjacent unit and the proposed infill well were the same, similar to the operation of Division Rule 1207.A.2.

In Order No. R-8768-C, the Division adopted the Committee's definition for the boundary between the LPA and HPA by outlining wells producing 2 MMcfpd. For that area of the pool within the LPA, the Division found that a well density of one well per 320-acre spacing unit results in the inadequate recovery of reserves. (Order No. R-8768-C; *inter alia* Findings 41, 52 and 53) Accordingly, Rule 7 of the Special Rules and Regulations for the pool was amended to authorize 160-acre infill development with the drilling of up to two wells within a standard 320-acre gas spacing and proration unit.

Within the HPA, the Division effectively maintained 320-acre spacing, authorizing the drilling of a second well only after hearing. (Order No. R-8768-C; Decretal paragraph 4, Rule 7(d)(2).) The Division declined to adopt the Committee's proposal that would have provided for the administrative approval of applications to drill infill locations within the HPA after providing notice to the operators of adjacent spacing units.

Among the findings of Order No. R-8768-C, the Division concluded: "*The reservoir pressure data and other evidence of communication establishes the probable existence of layering effects that require further study before it can be determined whether infill development within the [HPA] is justified.*" (*Id.*, at Finding 46)

Since the July, 2002 hearing on the Committee's Application, ConocoPhillips has had the opportunity to conduct further analysis and modeling of additional geologic and production data from both the LPA and HPA. From its study, ConocoPhillips now concludes that infill development in both the LPA and HPA is needed to effectively and efficiently drain coalbed methane gas reserves.

ConocoPhillips Company's position is: (1) Infill development within the LPA continues to be warranted; (2) There is now sufficient justification to permit infill drilling within the HPA; (3) Infill development within both the LPA and HPA will result in the recovery of incremental volumes of gas that would not otherwise be produced; (4) The special HPA notification procedures originally proposed in the Committee Application are sufficient to protect the correlative rights of interest owners in the pool and to prevent the drilling of unnecessary wells.

PROPOSED EVIDENCE

WITNESSES:

For ConocoPhillips Company:

Geology Witness

Summary of Testimony:

The geology witness will present a brief overview of the San Juan Basin Fruitland formation geology in New Mexico and Colorado. More specific testimony will focus on the variability of conditions that can be expected to be encountered within the Low Productivity and High Productivity areas of the pool.

Exhibits: 10

Estimated Length of Testimony:

Direct: 20 minutes

Cross: 15 minutes

Reservoir Engineering Witness

Summary of Testimony:

This witness will render expert engineering testimony on the results of a simulation study of increased density drilling in the High Productivity Area. The incremental recovery of 160-acre wells, differential depletion of heterogeneous layers, and the relevance of modeling the Basin-Fruitland Coal Gas reservoir will be addressed.

Exhibits: 20

Estimated Length of Testimony

Direct: 1 hour

Cross: 30 minutes

Reservoir Engineering Witness

Summary of Testimony:

This additional reservoir engineering witness will render expert testimony on the results of a simulation study of increased density drilling in the southeastern portion of the High Productivity Area.

Exhibits: 20

Estimated Length of Testimony

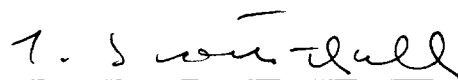
Direct: 1 hour
Cross: 1/2 hour

PROCEDURAL MATTERS

The Dugan/Richardson/San Juan Coal matters: ConocoPhillips urges the bifurcation for separate hearing or other disposition of those matters related to the special infill area of the pool established under Order No. R-11775-B in Case No. 12734 (*Application of Richardson Production Company to Establish a Special Infill Well Area*), as well as those "Remaining Coal Lease Lands" in the LPA as described by in the Application for Hearing *De Novo* filed by San Juan Coal Company in Case No. 12888. However, ConocoPhillips would reserve the right to present relevant geologic, engineering and land evidence on those portions of the LPA to the extent it may facilitate the Commission's understanding of issues relating to the remainder of the pool.

The decision of the Secretary of the Energy, Minerals and Natural Resources Department pursuant to the request for review filed on behalf of San Juan Coal Company in Case No. 12734 also remains pending as of the date of this Pre-Hearing Statement.

MILLER STRATVERT P.A.

By: 
J. Scott Hall, Esq.
Post Office Box 1986
Santa Fe, New Mexico 87504
(505) 989-9614

Attorneys for ConocoPhillips Company

Certificate of Mailing

I hereby certify that a true and correct copy of the foregoing was sent to counsel of record by facsimile transmission on the 13th day of May, 2003, as follows:

Steve Ross, Esq.
New Mexico Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

David Brooks, Esq.
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Steve Hayden
Fruitland Coalbed Methane Study Committee
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, New Mexico 87410

James Bruce, Esq.
Post Office Box 1056
Santa Fe, New Mexico 87504
Attorney for San Juan Coal Company

William F. Carr, Esq.
Holland & Hart LLP and
Campbell & Carr
Post Office Box 2208
Santa Fe, New Mexico 87504
Attorneys for BP Amoco and
Williams Production Company

W. Thomas Kellahin, Esq.
Kellahin & Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504-2265
Attorneys for Burlington Resources Oil & Gas Company

Ned Kendrick
Montgomery & Andrews, P.A.
Post Office Box 2307
Santa Fe, New Mexico 87401-8731
Attorney for Dugan Production Company

Larry P. Ausherman, Esq.
Modrall Sperling Roehl Harris & Sisk, P.A.
Post Office Box 2168
Albuquerque, New Mexico 87103-2168
Attorneys for San Juan Coal Company

Charles E. Roybal, Esq.
300 West Arrington, #200
Farmington, New Mexico 87401-8433
Attorney for BHP Minerals



J. Scott Hall

OF COUNSEL
William R. Federici

MONTGOMERY & ANDREWS
PROFESSIONAL ASSOCIATION
ATTORNEYS AND COUNSELORS AT LAW

Post Office Box 2307
Santa Fe, New Mexico 87504-2307

J.O. Seth (1883-1963)
A.K. Montgomery (1903-1987)
Frank Andrews (1914-1981)
Seth D. Montgomery (1937-1998)

February 28, 2003

www.montand.com

Victor R. Ortega
Gary Kilpatrick
Thomas W. Olson
Walter J. Melendres
John B. Draper
Nancy M. King
Sarah M. Singleton
Stephen S. Hamilton
Galen M. Buller
Edmund H. Kendrick

Louis W. Rose
Andrew S. Montgomery
Jennifer L. Weed
Paul R. Owen
Jeffery L. Martin
Emma Rodriguez Brittain
Germaine R. Chappelle
Tonia Ouellette Klausner
Jeffrey J. Wechsler

HAND DELIVERED

325 Paseo de Peralta
Santa Fe, New Mexico 87501

Telephone (505) 982-3873
Fax (505) 982-4289

COUNSEL
Randy S. Bartell

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Oil Conservation Division

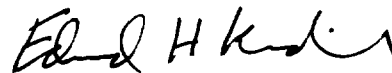
Ms. Florene Davidson
Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, NM 87505

**Re: Fruitland Infill Case
NMOCD Case No. 12888; Order No. R-8768-C**

Dear Ms. Davidson:

In accordance with Mr. Stephen Ross's Memorandum dated February 11, 2003, please find enclosed an original and two copies of the Pre-Hearing Statement of Dugan Production Corporation.

Sincerely,



Edmund H. Kendrick

EHK:nlb

Enclosures

cc (w/encl): Stephen C. Ross, Esq.
W. Thomas Kellahin, Esq.
William F. Carr, Esq.
James G. Bruce, Esq.
Larry P. Ausherman, Esq.
Charles E. Roybal, Esq.
J. Scott Hall, Esq.
David K. Brooks, Esq.
Steve Henke

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

APPLICATION OF THE FRUITLAND COALBED
METHANE STUDY COMMITTEE TO AMEND RULES
4 AND 7 OF THE SPECIAL RULES AND
REGULATIONS FOR THE BASIN-FRUITLAND COAL
(GAS) POOL AND FOR THE TERMINATION OF THE
CEDAR HILL-FRUITLAND BASAL COAL POOL AND
THE CONCOMITANT EXPANSION OF THE BASIN-
FRUITLAND COAL (GAS) POOL, RIO ARRIBA, SAN
JUAN, MCKINLEY, AND SANDOVAL COUNTIES,
NEW MEXICO

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Oil Conservation Division

CASE NO. 12888
ORDER NO. R-8768-C

PRE-HEARING STATEMENT OF DUGAN PRODUCTION CORPORATION

Dugan Production Corporation ("Dugan") operates wells in the "under-pressured" area or "Low Productivity Area" as defined in Order No. R-8768-C. Dugan supports the conclusions of the Fruitland Coalbed Methane Study Committee ("Committee") and the provisions of Order No. R-8768-C with respect to the under-pressured area. Wells in this area should be spaced at two wells for each 320 acres. The increased density will allow more efficient de-watering and enhance gas production rates in these low-pressure areas. Dugan does not operate wells in the "fairway" area or "High-Productivity Area" as defined in Order No. R-8768-C. Consequently, Dugan will not present any testimony concerning well

spacing in this area.

Dugan has participated on the Committee and supports the basin-wide amendment to the Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool as approved by the Oil Conservation Division ("Division") in Order No. R-8768-C. Dugan understands that members of the Committee will present the findings and conclusions of the Committee concerning infill drilling in the under-pressured area, as they did in the July 9-10, 2002 hearing before the Division. Consequently, Dugan will not testify on behalf of the Committee.

Dugan also supports the provisions of Division Order No. 11775 and Oil Conservation Commission ("Commission") Order 11775-B in Case No. 12734 concerning the Richardson Operating Company acreage. That acreage is within the under-pressured area and adjoins the Dugan acreage within the San Juan Underground Mine area.

Dugan is opposed to excluding any portion of its acreage from the amendment to the Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool. Testimony in opposition to any exclusion will be provided as follows:

- (1) Petroleum Engineer - This witness, who is an employee of Dugan, will testify about the history of Dugan's production of gas in the under-pressured area of the Basin-Fruitland Coal (Gas) Pool, Dugan's present production and Dugan's plans for future production. The area covered by the testimony will include the San Juan Underground Mine area.

The estimated time for direct examination is one hour. It would be reasonable to assume that there would be one hour of cross examination.

- (2) Geologist - This witness, who is an employee of Dugan, will testify about the production characteristics of coal bed methane in the under-pressured area of the Basin-Fruitland Coal (Gas) Pool. The estimated time for direct examination is one hour. It would be reasonable to assume that there would be one hour of cross examination.

Dugan is opposed to any separate hearings regarding the issues in this case. The application of the Committee proposed amendments to rules covering the entire Basin-Fruitland Coal (Gas) Pool. The Division considered the entire application (except the Richardson acreage that was the subject of Case No. 12734) at the July 9-10, 200 hearing. That scope should be retained in the de novo hearing before the Commission.

Respectfully submitted,

MONTGOMERY & ANDREWS, P.A.

By Edmund H. Kendrick
Edmund H. Kendrick
P.O. Box 2307
Santa Fe, NM 87504-2307
(505) 982-3873

CERTIFICATE OF MAILING

I hereby certify that a copy of the foregoing Pre-Hearing Statement of Dugan Production Corporation was served on the following by depositing a copy in the United States mail, postage prepaid, addressed as follows, this 28th day of February, 2003.

Stephen C. Ross, Esq.
New Mexico Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, NM 87505

W. Thomas Kellahin, Esq.,
Kellahin and Kellahin
P.O. Box 2265
Santa Fe, NM 87504-2265

William F. Carr, Esq.
Holland & Hart
P.O. Box 2208
Santa Fe, NM 87504-2208

James G. Bruce, Esq.
P.O. Box 1056
Santa Fe, NM 87504

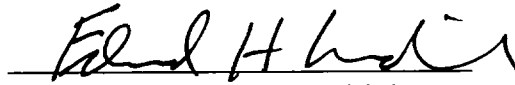
Larry P. Ausherman, Esq.
Modrall, Sperling, Roehl, Harris & Sisk P.A.
P.O. Box 2168
Albuquerque, NM 87103-2168

Charles E. Roybal, Esq.
BHP Minerals
300 W. Arrington, Suite 200
Farmington, NM 87401

J. Scott Hall, Esq.
Miller Stratvert and Torgerson P.A.
P.O. Box 1986
Santa Fe, NM 87504-1986

David K. Brooks, Esq.
New Mexico Oil Conservation Division
1120 S. St. Francis Drive
Santa Fe, NM 87505

Steve Henke
Bureau of Land Management
Farmington Field Office
1235 La Plata Highway
Farmington, NM 87401-8731



Edmund H. Kendrick



MODRALL SPERLING

L A W Y E R S

February 28 2003

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FEB 28 2003

Oil Conservation Division

Larry P. Ausherman
505.848.1836
Fax: 505.848.9710
lpausherman@modrall.com

Florene Davidson, Commission Secretary
New Mexico Oil Conservation Division
1120 S. St. Francis Drive
Santa Fe, NM 87505

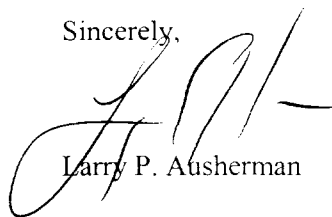
Re: In the Matter of the Hearing Called by the Oil Conservation Commission for the Purpose of Considering: Application of the Fruitland Coalbed Methane Study Committee to Amend Rules 4 and 7 of Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool and for the Termination of the Cedar Hill-Fruitland Basal Coal Pool and the Concomitant Expansion of the Basin-Fruitland Coal (Gas) Pool, Rio Arriba, San Juan, McKinley, Sandoval Counties, New Mexico; Case No. 12,888 *De Novo*

Dear Ms. Davidson:

Enclosed for filing is the Pre-Hearing Statement of San Juan Coal Company.

Thank you.

Sincerely,



Larry P. Ausherman

LPA/cc

Enclosure

cc/encl: W. Thomas Kellahin
Kellahin & Kellahin
P.O. Box 2265
Santa Fe, NM 87504
Fax No. (505) 982-2047

Modrall Sperling
Roehl Harris & Sisk P.A.

Bank of America Centre
500 Fourth Street NW
Suite 1000
Albuquerque,
New Mexico 87102

PO Box 2168
Albuquerque,
New Mexico 87103-2168

Tel: 505.848.1800
www.modrall.com

William F. Carr
Robert J. Sutphin, Jr.
Holland & Hart
P.O. Box 2208
Santa Fe, NM 87504-2208
Fax No. (505) 983-6043

Stephen C. Ross
Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, NM 87505
Fax No. (505) 476-3462

J. Scott Hall
Miller Stratvert, P.A.
P.O. Box 1986
Santa Fe, NM 87504-1986

John A. Dean
Curtis & Dean
P.O. Drawer 1259
Farmington, NM 87499

David K. Brooks
New Mexico Oil Conservation Division
1120 South St. Francis Dr.
Santa Fe, NM 87508

Steve Henke
Bureau of Land Management
Farmington Field Office
1235 La Plata Highway
Farmington, NM 87401-8731

Sarah M. Singleton
Montgomery & Andrews, PA
P.O. Box 2307
Santa Fe, NM 87504-2307

bcc/encl: Charles E. Roybal

James Bruce

J. E. Gallegos

Cindy Murray

Sarah Singleton

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF THE HEARING CALLED
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OF THE CEDAR HILL-FRUITLAND BASAL COAL
POOL AND THE CONCOMMITANT EXPANSION
OF THE BASIN-FRUITLAND COAL (GAS) POOL,
RIO ARRIBA, SAN JUAN, MCKINLEY, AND
SANDOVAL COUNTIES, NEW MEXICO.**

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Oil Conservation Division

**Case No. 12,888
*De Novo***

PRE-HEARING STATEMENT OF SAN JUAN COAL COMPANY

This pre-hearing statement is submitted by San Juan Coal Company ("San Juan")
as required by the Oil Conservation Commission and the scheduling letters of January 16,
2003 and February 11, 2003.

APPEARANCES

Parties

SAN JUAN COAL COMPANY
300 West Arrington, Suite 200
Farmington, NM 87401
Attention: Charles E. Roybal
505-598-4358

Attorneys

James Bruce
P.O. Box 1056
Santa Fe, NM 87504

Larry P. Ausherman
Modrall Sperling Law Firm
500 Fourth St. NW, Suite 1000
P.O. Box 2168
Albuquerque, NM 87103

Charles E. Roybal
300 W. Arrington, Suite 200
Farmington, NM 87401

Dugan Production Corp.

John A. Dean, Jr.
Curtis & Dean
P.O. Box 1259
Farmington, NM 87499-1259

Burlington Resources Oil & Gas Company,
LP

W. Thomas Kellahin
Kellahin and Kellahin
117 N. Guadalupe
Santa Fe, NM 87504

BP America Production Company
Williams Production Company
Koch Exploration Company, LLC
Chevron U.S.A. Inc.

William F. Carr
Holland & Hart
P.O. Box 2208
Santa Fe, NM 87504-2208

Conoco Phillips Company

J. Scott Hall
Miller Stratvert, PA
P.O. Box 1986
Santa Fe, NM 87504

STATEMENT OF THE CASE

Lands

San Juan has requested *de novo* review only insofar as the following lands in San Juan County, New Mexico, are involved:

Township 30 North, Range 14 West, N.M.P.M.

Section 17: All

Section 18: All

Township 30 North, Range 15 West, N.M.P.M.

Section 13: S½

Section 14: S½

Section 23: All

Section 24: All

Section 25: All
Section 26: All
Section 35: All

The above lands (“Coal Lease Lands”) are the remaining lands within San Juan’s coal leases that are not covered by Case No. 12734, which involves Richardson Operating Company’s Special Application for Infill Drilling and is currently on review to the Secretary of Energy, Minerals and Natural Resources. San Juan understands that Dugan Production Corporation (“Dugan”) claims operating rights to the majority of the oil and gas leases on the Coal Lease Lands.

Pending Application for Stay

There is currently pending before the Commission an Application by San Juan Coal Company for a Stay of the Division’s Order No. R-8768-C on certain lands within San Juan’s coal leases pending consideration of this matter by the Oil Conservation Commission (“Commission”). That Application for Stay has been pending since December 5, 2002. The January 16, 2003 scheduling memorandum in this case indicated that the Chair intends to issue an order on the Application in the “near future.”

Procedure

At the January 15 scheduling conference in this matter, San Juan proposed that the Commission hearing could be bifurcated to allow hearing on issues relating to the Coal Lease Lands to proceed separately from the remainder of this proceeding. The Coal Lease Lands area present certain unique issues that are not presented elsewhere, and San Juan’s Application for Hearing *De Novo* in this matter involves only the Coal Lease Lands. At that time, counsel for Dugan did not agree to San Juan’s proposal, but wanted to consider the matter further.

San Juan Underground Mine

On the Coal Lease Lands, San Juan Coal Company is the lessee of two federal coal leases. The Coal Lease Lands cover most of what is known as the “Deep Lease,” Federal Coal Lease No. NM 28093, and the northern portion of what is known as the “Deep Lease Extension,” Federal Coal Lease No. NM 99144. The remaining portions of the Deep Lease and Deep Lease Extension, together with two state leases (one in Section 36, Township 30 North, Range 15 West, and the other in Section 32, Township 30 North, Range 14 West), are at issue in OCC Case No. 12734 involving Richardson Operating Company and currently on *de novo* review by the Secretary of the New Mexico Energy, Minerals and Natural Resources Department.

San Juan has operated surface coal mines in the area for decades, but in October of 2002, after years of initial underground mine construction, it began mining coal using a longwall mining system at the San Juan Underground Mine located, in part, on the Coal Lease Lands. The Underground Mine will replace the existing surface mines at San Juan and La Plata as the sole source of supply for the San Juan Generating Station (“SJGS”). San Juan will use primarily its longwall mining system to mine coal, which became operational in October of 2002. The longwall mining system is an enormous piece of equipment (1000 feet long), which mines a “panel” of coal 1000 feet wide and up to almost 2 miles long.

The San Juan Underground Mine will be the sole coal supplier to SJGS, which is operated by Public Service Company of New Mexico. SJGS is the second largest power plant in New Mexico, and supplies much of the electricity distributed in New Mexico.

SJCC and SJGS each generate substantial payrolls and tax, which benefit state and local governments.

The San Juan Underground Mine involved an initial capital investment of approximately \$150 million, with additional investments planned over time. San Juan plans to employ over 300 people in the Underground Mine and associated operations (when in full production), with an annual payroll of about \$33 million. San Juan plans to extract approximately 100 million tons or more of coal from the Underground Mine through the year 2017 under the current contract with SJGS, which will yield about \$250 million in royalty from the federal leases (based on a royalty rate of 8%). One half of the federal royalty is payable to the state under applicable federal leasing statutes. In addition, coal production from the two adjacent state coal leases is expected to generate an additional \$25 million in royalty revenue to the State Land Office. There is also the possibility of coal mining beyond 2017, especially in the “Twin Peaks” area immediately east of the existing coal leases, which could result in a royalty stream beyond that date.

Generally, the Underground Mine is designed so that mining occurs in a sequence, which begins in the west of the mine permit area, and proceeds east. The economic viability of the Underground Mine depends upon systematic, uninterrupted development of the coal reserve. Adherence to the mine plan is important because if the longwall miner is required to stop production for prolonged periods (days), explosive gases can accumulate, and the risk of an underground explosion increases. Moreover, stopping and moving the longwall equipment around wellbores itself poses safety risks and is cumbersome, time consuming and costly.

Compatibility of Conventional CBM Wells with Coal Development

San Juan has serious concerns about the compatibility of conventional coalbed methane (“CBM”) development on the Coal Lease Lands and San Juan’s development of the coal itself. Before realizing fully the characteristics of the Fruitland Coal formation and the adjacent formations that form the roof and floor of the mine area, San Juan initially thought that a good solution to the conflict between coal development and CBM development was for CBM development to occur ahead of mining. Because mining proceeds slowly, it initially appeared that CBM development could proceed in advance of coal mining. However, upon further study, San Juan concluded that additional wellbores and fracing activities in the coal in advance of mining raised serious safety concerns.

Many of these safety concerns stem from the instability of the geologic formations at and immediately above the roof and at and immediately below the floor in the San Juan Underground Mine. San Juan did not fully appreciate the full ramifications of this instability until it gained experience in working underground in this local area. Formations in the roof and floor are relatively unstable in their natural state and can become even more unstable as a result of hydraulic fracturing. These conditions result in an increased risk of roof failure and floor instability. These risks increase the health and safety risks to San Juan’s employees and also increase the risk of a catastrophic event that could bury or strand San Juan’s longwall mining system, causing potential abandonment of a piece of mine equipment costing tens of millions of dollars.

In addition to hydraulic fracturing, another problem for coal development caused by gas operations is the existence of steel well casing in the coal seam. The federal Mine Safety and Health Administration (MSHA) regulations require that before mining

operations can approach to within 150 or 300 feet of an active wellbore (leaving a 300 or 600 foot in diameter buffer, depending upon interpretation of MSHA Regulations), the wellbore must be plugged and abandoned according to MSHA requirements. If San Juan is able to reach a buyout agreement with the operator, ordinarily it can plug and abandon the well and mine through the area, avoiding the need to bypass coal. However, if a well has been fractured in the coal, even with a buyout, the fractured condition of the coal could still require that the coal be bypassed for safety reasons. If San Juan is unable to reach a buyout agreement, it also must bypass and leave un-mined a substantial block of coal. This bypass of coal results in loss of royalty and taxes to the State of New Mexico. In addition to the waste of coal, gas development and infill wells could otherwise impede mining operations, causing diminished safety and increased costs and delays in mining that could lead to interruption of coal supply. These events could lead to higher costs and less secure supply of electricity for the customers of SJGS. The more wells that are drilled or re-completed, the greater the problems for the mine, especially if wells are located in certain areas of the mine plan.

Recovery of CBM in Mining Operations

San Juan has the right to vent gas in its mining operations, but the potential exists for recovering CBM through gob vent bore holes and horizontal bore holes drilled by San Juan into the face of its target coal seam running parallel with the coal seam to drain methane in advance of mining. The possible recovery of gas in this manner has been described in the letter of February 5, 2003, to Dugan from San Juan. This process differs from conventional CBM production in numerous respects, including that a horizontal borehole is not fractured, it is not cased with steel, and it exposes far more coal than a

conventional CBM well would expose. The horizontal boreholes would not pose the problems for mining that conventional CBM wells pose and would not inflict the damage on the coal seam that conventional CBM wells would. The degassing would meet MSHA safety regulations and help avoid spontaneous combustion. It is not yet clear that commercial quantities of gas exist or will be recovered in the area of the Coal Lease Lands, but San Juan's letter to Dugan does provide that if gas is collected and if it is safe, economic and practical, San Juan would like to make that gas available for Dugan's gathering and distribution.

Infill Wells are Uneconomic and Inefficient.

The Oil and Gas Act and Division Regulations preclude approval of the application. The Act states in part:

the division may establish a pro-ration unit for each pool, such being the area that can be efficiently and economically drained by one well, and in so doing the division shall consider the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights . . . the prevention of waste, the avoidance of augmentation of risks arising from the drilling of an excessive number of wells, and the prevention of reduced recovery which might result from the drilling of too few wells.

NMSA 1978 § 70-2-17B. It is contrary to law and to the public interest to allow inefficient or uneconomic infill wells to damage the coal seam. For the most part, the infill wells proposed for the Coal Lease Area would not be economic or efficient because the CBM resource in most of the area is marginal at best. The impact of these marginal wells on the far more valuable coal gas reserve further illustrates that the infill wells would be contrary to the Oil and Gas Act as uneconomic and inefficient. They are unnecessary and would result in the waste of the coal resource and augmentation of risk.

The Commission should consider alternative CBM recovery methods in the mine area that do not damage the coal.

Also, because Pictured Cliffs wells in the area produce from this coal seam, any Pictured Cliffs wells that Dugan already operates would help achieve the production it seeks through infill. Pictured Cliffs wells are actually Fruitland coal producers. Thus, in effect, any production from Pictured Cliffs wells by Dugan drains Fruitland coal.

To support its position, San Juan will present evidence on (a) mine safety requirements and their impact on the waste of coal that is bypassed, including the prevention of fires, (b) the lack of economic return and need for additional wellbores or re-completions, (c) economic loss and risk caused by drilling unnecessary wells, (d) the dangers of fracing in the coal seam, (e) economic and physical waste, (f) conservation of mineral resources, (g) protection of neighboring properties, and (h) the public interest.

PROPOSED EVIDENCE

San Juan Coal Company's Proposed Witnesses

<u>Witness</u>	<u>Estimated Time¹</u> <u>(approx.)</u>	<u>Estimated Exhibits</u> <u>(approx.)</u>
Dr. Steve Bessinger (Mining Engineer)	2 Hrs.	25
John Mercier (Geologist)	30 Min.	5
John Hattner (Geologist)	30 Min.	5
Dan Paul Smith (Engineer)	60 Min.	20

¹ Time estimates are for direct examination.

San Juan May Call

George Gilfillan (San Juan Senior Contract Analyst)	30 Min.	5
Paul Bertoglio (Engineer)	30 Min.	5

With respect to the mine area, Dr. Bessinger will testify concerning the subjects of his testimony before the Secretary in her review of OCC Case No. 12734 (*De Novo*). He will address longwall mining operations, mine roof and floor conditions, safety concerns associated with hydraulic fracturing, MSHA regulations, quantities of bypassed coal, the San Juan mine plan, investment of San Juan and the value of the coal reserves, the history of San Juan's operations and leases, supply of coal to SJGS, public benefit of the coal supply, ventilation and mine degassing, and potential recovery of CBM in mining operations.

With respect to Coal Lease Lands, John Mercier will testify concerning the subjects of his testimony before the Commission in OCC Case No. 12734. His testimony may address coal desorption data and geology of the mine area, including coal thickness.

With respect to Coal Lease Lands, John Hattner will testify concerning the subjects of his testimony before the Commission in OCC Case No. 12734 concerning geology of the mine area and foundational matters of geology for the testimony of Dan Paul Smith.

With respect to the Coal Lease Lands, Dan Paul Smith will testify concerning the subjects of his testimony in OCC Case No. 12734. He will address the gas content of the coal in the area in and around the Coal Lease Lands, the economics of the gas resource

and wells in the Coal Lease Lands, desorption data, and production of gas from the coal seam and adjoining formations.

George Gilfillan may testify concerning San Juan's coal leases, the history of San Juan's operations, the value of the coal reserves, the royalty and associated benefits of coal mining to the public and governments, the coal sales contract with SJGS, and issues related to proceedings before the BLM.

With regard to the Coal Lease Lands, Paul Bertoglio may testify concerning the subjects of his testimony before the OCC in OCC Case No. 12734. He would address the economics of the gas resource and CBM wells in the area of the Coal Lease Lands, gas content of the coal, gas production techniques, and production from the Pictured Cliffs formation.

Respectfully Submitted,

ATTORNEYS FOR SAN JUAN COAL
COMPANY

By: 

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

-and-

Larry P. Ausherman
Walter E. Stern
Modrall, Sperling, Roehl, Harris & Sisk,
P.A.
Post Office Box 2168
Albuquerque, New Mexico 87103-2168
(505) 848-1800

-and-

Charles E. Roybal
San Juan Coal Company
300 W. Arrington, Suite 200
Farmington, New Mexico 87401
(505) 598-4358

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record via first class mail this 28th day of February, 2003.

W. Thomas Kellahin
Kellahin & Kellahin
P.O. Box 2265
Santa Fe, NM 87504
Fax No. (505) 982-2047

William F. Carr
Robert J. Sutphin, Jr.
Holland & Hart
P.O. Box 2208
Santa Fe, NM 87504-2208
Fax No. (505) 983-6043

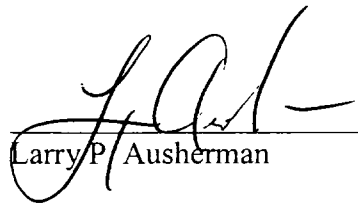
Stephen C. Ross
Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, NM 87505
Fax No. (505) 476-3462

J. Scott Hall
Miller Stratvert, P.A.
P.O. Box 1986
Santa Fe, NM 87504-1986

John A. Dean, Jr.
Curtis & Dean
P.O. Drawer 1259
Farmington, NM 87499

David K. Brooks
New Mexico Oil Conservation Division
1120 South St. Francis Dr.
Santa Fe, NM 87508

Steve Henke
Bureau of Land Management
Farmington Field Office
1235 La Plata Highway
Farmington, NM 87401-8731



Larry P. Ausherman

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MILLER STRATVERT P.A.
LAW OFFICES

RANNE B. MILLER
ALAN C. TORGERSON
ALICE T. LORENZ
GREGORY W. CHASE
STEPHEN M. WILLIAMS
STEPHAN M. VIDMAR
SETH V. BINGHAM
TIMOTHY R. BRIGGS
RUDOLPH LUCERO
DEBORAH A. SOLOVE
GARY L. GORDON
LAWRENCE R. WHITE
SHARON P. GROSS
VIRGINIA ANDERMAN
MARTE D. LIGHTSTONE
J. SCOTT HALL*
THOMAS R. MACK
TERRI S. BEACH
THOMAS M. DOMME
JEFFREY E. JONES
ROBIN A. GOBLE
JAMES R. WOOD

DANA M. KYLE
KIRK R. ALLEN
RUTH FUESS
KYLE M. FINCH
H. BROOK LASKEY
KATHERINE W. HALL
PAULA G. MAYNES
MICHAEL C. ROSS
CARLA PRANDO
KATHERINE N. BLACKETT
JENNIFER L. STONE
M. DYLAN O'REILLY
JENNIFER D. HALL
JENNIFER L. OLSON
TODD A. SCHWARZ
TIMOTHY L. BUTLER
MICHELLE K. OSTRYE***
KELSEY D. GREEN
MARCY BAYSINGER
DAVID J. MARTIN
CAROLINE BLANKENSHIP

COUNSEL

ROSS B. PERKAL
JAMES J. WIDLAND
BRADLEY D. TEPPER**
GARY RISLEY
NELL GRAHAM SALE

OF COUNSEL

WILLIAM K. STRATVERT
JAMES B. COLLINS

ALBUQUERQUE, NM

500 MARQUETTE NW, SUITE 1100
P.O. BOX 25687 (87125-0687)
ALBUQUERQUE, NM 87102
TELEPHONE: (505) 842-1950
(800) 424-7585
FACSIMILE: (505) 243-4408

FARMINGTON, NM

300 WEST ARRINGTON, SUITE 300
P.O. BOX 869 (87499-0869)
FARMINGTON, NM 87401
TELEPHONE: (505) 326-4521
FACSIMILE: (505) 325-5474

SANTA FE, NM

150 WASHINGTON AVE., SUITE 300
P.O. BOX 1986 (87504-1986)
SANTA FE, NM 87501
TELEPHONE: (505) 989-9614
FACSIMILE: (505) 989-9857

LAS CRUCES, NM

1125 SOUTH MAIN ST., SUITE B
P.O. BOX 1209 (88004-1209)
LAS CRUCES, NM 88005
TELEPHONE: (505) 523-2481
FACSIMILE: (505) 526-2215

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***licensed in Texas only
* NEW MEXICO BOARD OF SPECIALIZATION RECOGNIZED SPECIALIST IN NATURAL RESOURCES - OIL & GAS LAW
** NEW MEXICO BOARD OF SPECIALIZATION RECOGNIZED SPECIALIST IN REAL ESTATE LAW

February 28, 2003

HAND-DELIVERED

Ms. Florene Davidson
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

RECEIVED

FEB 28 2003

Re: NMOCC Case No. 12888 *De Novo*

Oil Conservation Division

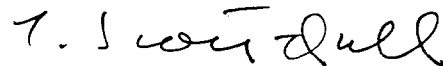
Dear Ms. Davidson:

Enclosed for filing is an original and five copies of ConocoPhillips Company's Pre-Hearing Statement in the above-captioned matter.

Thank you for your assistance.

Very truly yours,

MILLER STRATVERT P.A.



J. Scott Hall

JSH/glb

cc: Counsel of Record
Darren Groce
Steve Henke
Jim Kolesar
Steve Jones

RECEIVED

FEB 28 2003

Oil Conservation Division

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION
FOR THE PURPOSE OF CONSIDERING:**

**NOMENCLATURE
CASE NO. 12888
DE NOVO
ORDER NO. R-8768-C**

**APPLICATION OF THE FRUITLAND COALBED METHANE STUDY COMMITTEE
TO AMEND RULES 4 AND 7 OF THE SPECIAL POOL RULES AND REGULATIONS
FOR THE BASIN-FRUITLAND COAL GAS POOL AND FOR THE TERMINATION
OF THE CEDAR HILLS FRUITLAND BASAL COAL GAS POOL AND THE
CONCOMITANT EXPANSION OF THE BASIN-FRUITLAND COAL GAS POOL, RIO
ARRIBA, SAN JUAN, MCKINLEY AND SANDOVAL COUNTIES, NEW MEXICO.**

CONOCOPHILLIPS COMPANY'S PRE-HEARING STATEMENT

STATEMENT OF THE CASE

On October 15, 2002, the New Mexico Oil Conservation Division issued Order No. R-8768-C amending the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool (71629) to allow for infill development in certain areas of the pool while remanding the issue of well density in other portions of the pool back to the Fruitland Coalbed Methane Committee for further study. ConocoPhillips Company agrees with the findings and conclusions of Order No. R-8768-C.

Based in large part on the recommendation of the Fruitland Coalbed Methane Committee, a joint government-industry committee comprised of representatives of San Juan Basin operators, the Bureau of Land Management and the Division's Aztec District Office, Order No. R-8768-C formally established two specifically described areas within the Basin-Fruitland Coal Gas Pool: (1) The Low-Productivity Area ("LPA") and (2) the High-Productivity Area ("HPA") inside the LPA. Known for its prolific Fruitland coal gas production, the HPA is situated within

what is often referred to in the industry as “the Fairway”. The LPA is identified in Order No. R-8768-C as the entirety of the Basin-Fruitland Coal Pool, the horizontal limits of which are described in Paragraphs 6 and 10 of the Order, except the HPA. The HPA is described in Paragraph 13 of the Order. The Order also consolidated the acreage within the former Cedar Hill-Fruitland Basal Coal Pool (74500) into the Basin-Fruitland Coal Gas Pool.

For that area of the pool within the LPA, the Division found that a well density of one well per 320-acre spacing unit results in the inadequate recovery of reserves. (Order No. R-8768-C; *inter alia* Findings 41, 52 and 53) Accordingly, Rule 7 of the Special Rules and Regulations for the pool was amended to authorize 160-acre infill development with the drilling of up to two wells within a standard 320-acre gas spacing and proration unit.

With respect to the HPA, the Division determined that 320-acre spacing is adequate. (*Id.*, at Finding 48)

The Division noted that production data established the existence of significant pressure uniformity over a very large portion of the HPA and that, on average, wells within the HPA are draining “at least” 320 acres. (*Id.*, at Finding 44) The Division further noted that reservoir pressure data established the existence of communication over very large areas in one or more of the coal seam layers, along with rapid equilibration of pressures among offsetting wells. Based largely on such evidence, the Division concluded: “*The reservoir pressure data and other evidence of communication establishes the probable existence of layering effects that require further study before it can be determined whether infill development within the [HPA] is justified.*” (*Id.*, at Finding 46)

The Division further found that the plans of two operators for the accelerated drilling of as many as 300 infill wells within the HPA in 2003, a significant number of which would have

to be offset by additional drainage protection wells, created an unacceptable risk to correlative rights and would result in the drilling of unnecessary wells. (*Id.*, at Finding 49) As a cumulative result of the lack of reliable evidence to support infill drilling in the HPA and the unacceptable risks associated with allowing such development to go forward, the Division denied that portion of the Application (*Id.*, at Finding 51) and said:

“Based on the relative lack of direct evidence of the potential effects from infill drilling within the High Productivity Area, it would not be prudent for the Division to amend the pool rules to provide for increased density within the High Productivity Area at this time. The more prudent course of action would be to refer the matter of infill drilling within the High Productivity Area back to the Committee for further study. Among other things, due to highly competitive nature of the pool and its multi-layered geology, the Committee should consider modeling a significantly larger, more representative area within the High Productivity Area evaluating the effect of production on wells over a greater distance than just an infill well location.” (*Id.*, at Finding 50)

ConocoPhillips Company’s position is: (1) infill development is warranted within the Low Productivity Area; (2) There are presently insufficient engineering data from wells located in the High Productivity Area to establish that infill development is warranted throughout the entire area ; (3) Additional production and engineering data from the HPA should be collected and subsequently analyzed.

The Fruitland Coalbed Methane Committee deliberations have focused on infill drilling within the Basin-Fruitland Coal Gas Pool since 1999. Among others, representatives from Burlington, BP-Amoco, Conoco and Phillips (now ConocoPhillips) have been active participants on the Committee. For a number of years, Burlington and BP/Amoco have promoted definitional boundaries for a High Productivity Area within the pool, which has been variously referred to as “the Fairway” or the “Over-pressured Area”. (*See, inter alia*, NMOCD Case No. 12296;

Application of Burlington Resources Oil and Gas Company To Amend Rule 7 of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool; Order No. R-8768-B.)¹

Initially, the Committee examined the propriety of infill development in the non-Fairway portions of the pool. Within the last two years, the Committee reached a consensus on the establishment of a boundary outlining the High-Productivity and Low-Productivity Areas within the pool. Burlington, BP, ConocoPhillips, and the other Committee members all agreed that the boundary between the HPA and the LPA should be defined by outlining wells producing 2 MMcfpd. In the Low-Productivity Area, it was the consensus of the Committee that infill drilling should proceed. No consensus was reached regarding drilling within the High Productivity Area. Some operators believed additional study was warranted, while others wanted to abolish the 2MMcfpd line.

The Committee's Application in this case was filed on June 14, 2002.² The Application set forth two alternative requests: (1) to increase the well density throughout the entire pool to allow for a maximum of 2 wells per 320 acre gas proration and spacing unit; and (2) "In the alternative", the adoption of the increased density rules for the Low Productivity Area, and for special administrative procedures for infill drilling in the High Productivity Area.

After the Committee's Application was drafted, it became known that Burlington and BP had plans to aggressively drill the HPA. Burlington and BP had not disclosed their plans for accelerated drilling during the course of Committee deliberations. For Burlington, the drilling

¹ Finding Para. 15 of Order No. R-8768-B provides: "Burlington provided technical evidence demonstrating that: ... (c) nearly all of the acreage in the over-pressured area has been developed and adequately drained. The area drained by individual wells in the over-pressured area of the pool is approximately 320 acres; ... (h) the under-pressured area is not fully developed and is the area of primary concern for future development under the proposed setback changes. The area drained by individual wells in the under-pressured area of the pool is approximately 160 acres."

inside the HPA was a reversal of the position it had previously taken during Committee meetings and other proceedings that the 2MMcfd boundary line should be maintained. (See Case No. 12651; Application of Burlington Resources for Approval of a Pilot Project; Order No. R-11639, Finding Paragraphs 9 [a],[b], and [c]. See, also, Case No. 12296; Order No. R-8768-B.)

During the course of the Division Examiner hearing in Farmington on July 9 and 10, 2002, the positions advanced by Burlington and BP were ambiguous and confusing. Both claimed to represent the Committee position when in fact the Committee was divided about infill drilling in the HPA. Both Burlington and BP disavowed the need for further analysis of the High-Productivity Area and the separate treatment of that portion of the pool, claiming that no correlative rights issues existed there and citing to Amoco's proposal for similar rules in the Blanco-Mesaverde pool. During the course of the hearing, it became clear that Burlington and BP were advocating and planning for unrestricted infill drilling throughout the pool, including the HPA, regardless of the lack of data to support infill development inside the HPA.

In two separate findings in Order No. R-8768-C, the Division noted the divergence of positions among the parties that evolved during the course of the proceeding:

"(17) There was disagreement among the Committee participants on the proper approach to development within the High Productivity Area. Some members advocated infill drilling within the high productivity area without limitation. Other members advocated infill drilling subject to the adoption of special notification rules and administrative procedures. Others asserted that additional data was needed and that further study was warranted. As a consequence of the disagreement, the Committee concluded that it would be appropriate to provide for the collection of additional engineering data in order to further study infill development within the high productivity area and to revisit the issue after one year's time."

"(19) The testimony of witnesses who participated in the Committee deliberations establishes that the Application does not reflect the full range of

² As a courtesy to the Committee, the Application was drafted by Burlington's counsel in consultation with BP's counsel.

views of the Committee participants or the scope of relief that the Committee resolved would be requested. Specifically, the Application fails to reflect the Committee's determination that additional production and engineering data from wells within the High Productivity Area should be obtained and studied further before proceeding to make any recommendation for infill development in that area."

Throughout the Committee's deliberations to the present, the ConocoPhillips position has remained unchanged: (1) A boundary defining the High-Productivity Area should be established, (2) infill development should proceed in the Low-Productivity Area, and (3) additional data and study are needed to determine whether infill development within the High-Productivity Area may be warranted.

PROPOSED EVIDENCE

WITNESSES:

For ConocoPhillips Company:

Petroleum Engineering Witness

Summary of Testimony:

This witness will provide fact testimony on the deliberations of the Fruitland Coalbed Methane Committee. The witness will also render expert opinion testimony on the unique characteristics of coal seam gas production and the appropriate engineering methods for analyzing the same. The witness will also discuss the specific characteristics of production of coal seam gas from the reservoirs located within the High Productivity and Low Productivity Areas. The sufficiency of the presently available production data will also be discussed.

Exhibits: 25

Estimated Length of Testimony

Direct: 1 1/2 hour

Cross: 2-1/2 hours

Reservoir Engineering Witness

Summary of Testimony:

This witness will render expert engineering testimony on the application of modeling and the use of simulations for coal gas reservoirs in the San Juan Basin. The highly competitive nature of the reservoir will also be discussed in the context of reservoir economics, the potential adverse effect on correlative rights and the likelihood of waste that may result from inappropriate well densities.

Exhibits: 25

Estimated Length of Testimony

Direct: 1 1/2 hour

Cross: 2-1/2 hours

Landman Witness

Summary of Testimony:

Among other matters, the land witness will testify about the acreage ownership position of ConocoPhillips and the other operators in the San Juan Basin and the Federal township units within the Basin-Fruitland Coal Gas Pool. Exhibits: 7

Estimated Length of Testimony

Direct: 30 minutes

Cross: 1 hour

Geology Witness

Summary of Testimony:

The geology witness will present a brief overview of the San Juan Basin Fruitland formation geology in New Mexico and Colorado. More specific testimony will focus on the variability of conditions that can be expected to be encountered within the Low Productivity and High Productivity areas of the pool. Validation of engineering models will also be discussed. The scope and length of testimony of the geology witness (and all other witnesses) may be affected by any decision prior to the hearing that the consideration of issues relating to the Low Productivity Area can be eliminated.

Exhibits: 15

Estimated Length of Testimony:

Direct: 1 hour

Cross: 1-1/2 hour

PROCEDURAL MATTERS

EVIDENTIARY MATTERS:


On January 14, 2003, ConocoPhillips sought the concurrence of the parties of record to the attached *Pre-Hearing Stipulations Of The Parties* in order to avoid the unnecessary presentation of evidence at hearing on a number of relevant matters that do not appear to be controverted. To date, no other party has responded to the ConocoPhillips proposal.

OTHER MATTERS:

In view of the findings in Order No. R-8768-C referenced above (Finding 19) that the original Application filed in this case does not accurately reflect the scope of relief that the Fruitland Coalbed Methane Committee resolved would be requested in this proceeding, ConocoPhillips may file a motion seeking the amendment or substitution of the original Application.

The Dugan/Richardson/San Juan Coal matters: ConocoPhillips urges the bifurcation of this portion of the proceeding for separate hearing. It is further suggested that, pending the stipulation of the parties, the Commission may proceed to ratify the current pool rules for the remainder of the Low Productivity Area of the pool not affected by the Dugan/Richardson/San Juan Coal proceeding. . However, ConocoPhillips would reserve the right to present relevant geologic, engineering and land evidence on the LPA to the extent it may facilitate the Commission's understanding of issues relating to the HPA.

MILLER STRATVERT P.A.

By: 
J. Scott Hall, Esq.
Post Office Box 1986
Santa Fe, New Mexico 87504
(505) 989-9614

Attorneys for ConocoPhillips Company

Certificate of Mailing

I hereby certify that a true and correct copy of the foregoing was sent to counsel of record by facsimile transmission on the 28 day of February, 2003, as follows:

Steve Ross, Esq.
New Mexico Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

David Brooks, Esq.
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Steve Hayden
Fruitland Coalbed Methane Study Committee
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, New Mexico 87410

James Bruce, Esq.
Post Office Box 1056
Santa Fe, New Mexico 87504
Attorneys for XTO Energy, Inc.

William F. Carr, Esq.
Holland & Hart LLP and
Campbell & Carr
Post Office Box 2208
Santa Fe, New Mexico 87504
Attorneys for BP Amoco and
Williams Production Company

W. Thomas Kellahin, Esq.
Kellahin & Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504-2265
Attorneys for Burlington Resources Oil & Gas Company

John A. Dean, Jr. Esq.
Curtis & Dean
Post Office Box 1259
Farmington, New Mexico 87499-1259
Attorney for Dugan Production Company

Larry P. Ausherman, Esq.
Modrall Sperling Roehl Harris & Sisk, P.A.
Post Office Box 2168
Albuquerque, New Mexico 87103-2168
Attorneys for San Juan Coal Company

Charles E. Roybal, Esq.
300 West Arrington, #200
Farmington, New Mexico 87401-8433
Attorney for BHP Minerals



J. Scott Hall

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION
FOR THE PURPOSE OF CONSIDERING:**

**NOMENCLATURE
CASE NO. 12888
DE NOVO
ORDER NO. R-8768-C**

**APPLICATION OF THE FRUITLAND COALBED METHANE STUDY
COMMITTEE TO AMEND RULES 4 AND 7 OF THE SPECIAL RULES AND
REGULATIONS FOR THE BASIN-FRUITLAND COAL (GAS) POOL AND FOR
THE TERMINATION OF THE CEDAR HILL-FRUITLAND BASAL COAL POOL
AND THE CONCOMITANT EXPANSION OF THE BASIN-FRUITLAND COAL
(GAS) POOL, RIO ARRIBA, SAN JUAN, McKINLEY, AND SANDOVAL
COUNTIES, NEW MEXICO.**

PRE-HEARING STIPULATIONS OF THE PARTIES

(ConocoPhillips Company Draft I)

The Fruitland Coalbed Methane Committee, ("the Committee"), Burlington Resources Oil and Gas Company, ("Burlington"), BP America, Inc., ("BP"), ConocoPhillips Company, ("ConocoPhillips"), Dugan Production Corporation, ("Dugan"), and San Juan Coal Company, ("San Juan Coal"), parties of record, through their counsel, hereby stipulate to the following matters to be considered by the New Mexico Oil Conservation Commission at the hearing de novo on the Application referenced above:

(1) Due public notice has been given, and the Commission has jurisdiction of this case and its subject matter.

(2) The horizontal limits of the Basin-Fruitland Coal (Gas) Pool currently comprise the following-described area in all or portions of San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico, with the exception of Sections 3 through 6 of Township 31 North, Range 10 West, NMPM and Sections 19 through 22 and 27 through 34 of Township 32 North, Range 10 West, NMPM, San Juan County, New Mexico, which acreage (comprising approximately 10,240 acres) currently comprises the Cedar Hill-Fruitland Basal Coal Pool that was established by Division Order No. R-7588, issued in Case No. 8014 on July 9, 1984:

Township 19 North, Ranges 1 West through 6 West, NMPM;
Township 20 North, Ranges 1 West through 8 West, NMPM;
Township 21 North, Ranges 1 West through 9 West, NMPM;
Township 22 North, Ranges 1 West through 11 West, NMPM;
Township 23 North, Ranges 1 West through 14 West, NMPM;
Township 24 North, Ranges 1 East through 16 West, NMPM;
Township 25 North, Ranges 1 East through 16 West, NMPM;
Township 26 North, Ranges 1 East through 16 West, NMPM;
Township 27 North, Ranges 1 West through 16 West, NMPM;
Township 28 North, Ranges 1 West through 16 West, NMPM;
Township 29 North, Ranges 1 West through 15 West, NMPM;
Township 30 North, Ranges 1 West through 15 West, NMPM;
Township 31 North, Ranges 1 West through 15 West, NMPM; and
Township 32 North, Ranges 1 West through 13 West, NMPM.

(3) The vertical limits of both the Basin-Fruitland Coal (Gas) Pool and the Cedar Hill-Fruitland Basal Coal Pool include all coal seams within the equivalent of the stratigraphic interval from a depth of approximately 2450 feet to 2880 feet as shown on the well log from the Amoco Production Company Schneider Gas Com "B" Well No. 1 (API No. 30-045-22178) located 1110 feet from the South line and 1185 feet from the West line (Unit M) of Section 28, Township 32 North, Range 10 West, NMPM, San Juan County (see Division Orders No. R-8768, issued in Case No. 9420 on October 17, 1988, and R-7588-B, issued in Case No. 9362 on October 19, 1988).

(4) The Basin-Fruitland Coal (Gas) Pool is an "unprorated gas pool" not subject to part H of the Division's statewide rules and regulations entitled "gas proration and allocation" (Rules 601-605). However, the Basin Fruitland Coal "Gas" Pool is subject to the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," established by Division Order No. R-8768, as amended by Orders No. R-8768-A and R-8768-B, which rules provide for:

- (i) 320-acre spacing units (Rule 4); and
- (ii) wells to be located in either the NE/4 or SW/4 of a single governmental section and no closer than 660 feet to the outer boundary of the spacing unit nor closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary (Rule 7).

(5) Rule 4 of the “*Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool*” directs that each well to be completed in the pool is to be located on a standard unit containing 320 acres, more or less, comprising any two contiguous quarter sections of a single governmental section.

(6) The Fruitland Coalbed Methane Committee is a voluntary technical study group comprised of representatives of the Division’s Aztec District office and numerous operators in the San Juan Basin. The Committee’s purpose is to evaluate past and ongoing development in the Basin-Fruitland Coal (Gas) Pool and the Cedar Hill-Fruitland Basal Coal Gas Pool and make recommendations to the Division on the future development in the pools.

(7) During the course of the Committee’s deliberations, all of the Committee participants were in agreement that there are areas where 160-acre infill development is warranted.

(8) The Committee participants also agreed that there are other areas where one well would be capable of draining in excess of 320 acres. The Committee determined that in these areas, infill drilling could lead to the drilling of unnecessary wells.

(9) BP presented evidence to the Committee showing that wells making less than 2.0 million cubic feet per day were capable of draining only 200 acres. In recognition of the smaller drainage radii in those areas where wells produce less than 2.0 million cubic feet per day, the Committee established a boundary for what it has labeled the “Low Productivity Area.”

(10) The Committee labeled the area outside of the Low Productivity Area, where a single well is capable of draining in excess of 200 acres, the “High Productivity Area.” The acreage in the High Productivity Area in both San Juan and Rio Arriba Counties, New Mexico, is identified as follows:

Township 29 North, Range 6 West, NMPM

Sections 2 through 8:	All
Sections 11 and 12:	All
Sections 17 and 18:	All

Township 29 North, Range 7 West, NMPM

Section 1:	All
Sections 12 and 13:	All

Township 30 North, Range 5 West, NMPM

Sections 19 through 21: All

Sections 29 through 31: All

Township 30 North, Range 6 West, NMPM

Sections 5 through 35: All

Township 30 North, Range 7 West, NMPM

Sections 1 through 18: All

Sections 22 through 26: All

Section 36: All

Township 30 North, Range 8 West, NMPM

Sections 1 through 4: All

Sections 10 through 13: All

Township 30 North, Range 9 West, NMPM

Section 2: All

Township 31 North, Range 6 West, NMPM

Section 6: All

Section 31: All

Township 31 North, Range 7 West, NMPM

Section 1: All

Sections 12 through 14: All

Sections 19 through 36: All

Township 31 North, Range 8 West, NMPM

Sections 4 through 10: All

Sections 13 through 36: All

Township 31 North, Range 9 West, NMPM

Sections 1 through 7: All

Sections 11 through 14: All

Sections 22 through 27: All

Sections 34 through 36: All

Township 32 North, Range 6 West, NMPM

Section 19: All
Sections 29 through 31: All

Township 32 North, Range 7 West, NMPM

Sections 23 through 26: All
Section 36: All

Township 32 North, Range 8 West, NMPM

Section 19: All
Sections 30 through 32: All

Township 32 North, Range 9 West, NMPM

Sections 24 through 26: All
Sections 30 through 32: All
Sections 35 and 36: All

Township 32 North, Range 10 West, NMPM

Sections 7 through 12: All
Sections 14 through 25: All
Sections 28 through 30: All

Township 32 North, Range 11 West, NMPM

Sections 11 through 13: All
Section 24: All.

(11) The Low Productivity Area is that acreage within the horizontal boundaries of the Basin-Fruitland Coal (Gas) Pool and the Cedar Hill-Basal Coal Pool described in Paragraph 2, above, excluding the High Productivity Area.

(12) The Committee participants were in unanimous agreement that effective 160-acre infill development in the Low Productivity Area is justified.

(13) The Committee was unable to reach consensus on the need for infill development within the High Productivity Area.

(14) There was disagreement among the Committee participants on the proper approach to development within the High Productivity Area. Some members advocated

infill drilling within the high productivity area without limitation. Other members advocated infill drilling subject to the adoption of special notification rules and administrative procedures. Others asserted that additional data was needed and that further study was warranted. As a consequence of the disagreement, the Committee concluded that it would be appropriate to provide for the collection of additional engineering data in order to further study infill development within the high productivity area and to revisit the issue after one year's time.

(15) The parties to this proceeding are in general agreement that an acceptable gas content value which may be utilized to calculate drainage areas for coalbed methane wells within the High Productivity Area is 500 standard cubic feet per ton.

(16) In Division Order No. R-8768-B, issued in Case No. 12296 on February 10, 2000, based on geologic and engineering evidence presented by Burlington, the Division found [see Finding Paragraph No. (15) on pages 4 and 5] that:

“(a) the Basin-Fruitland Coal (Gas) Pool can be divided into an over-pressured area and an under-pressured area;

(b) the over-pressured area is located in the north central portion of the pool and currently comprises all or portions of the following described area in San Juan and Rio Arriba Counties, New Mexico;

*Township 29 North, Ranges 5 West through 8 West, NMPM;
Township 30 North, Ranges 4 West through 9 West, NMPM;
Township 31 North, Ranges 5 West through 10 West,
NMPM; and
Township 32 North, Ranges 5 West through 12 West,
NMPM;*

(17) By Division Order No. R-11775, issued in Case No. 12734 on June 6, 2002, Richardson Operating Company was granted authorization to develop the Basin-Fruitland Coal (Gas) Pool underlying the following-described area in San Juan County, New Mexico with two wells per 320-acre gas spacing unit:

TOWNSHIP 29 NORTH, RANGE 14 WEST, NMPM

Sections 4 through 6: All

TOWNSHIP 29 NORTH, RANGE 15 WEST, NMPM

Section 1: All

TOWNSHIP 30 NORTH, RANGE 14 WEST, NMPM

Section 16: All

Sections 19 through 21: All

Sections 28 through 33: All

TOWNSHIP 30 NORTH, RANGE 15 WEST, NMPM

Section 36: All.

This area is within the Low Productivity Area that is the subject of this case.

(18) At the request of San Juan Coal Company the Division's order issued in Case No. 12734 was appealed to the New Mexico Oil Conservation Commission ("Commission"). Prior to the July 9, 2002 Division Examiner hearing in this matter, San Juan Coal Company requested that the area covered by Case No. 12734 be excluded from the general infill application in Case No. 12888. On July 2, 2002, this request was presented before the Examiner and was verbally granted. On July 26, 2002, the Commission issued Order No. R-11775-A staying the effect of Division Order No. R-11775 pending review by the Commission.

(19) On December 19, 2002, the New Mexico Oil Conservation Commission issued Order No. R-117756-B approving Richardson Operating Company's application in Case No. 12734 for infill development in the Special Infill Area described therein and in Paragraph (17), above.

(20) The Cedar Hill-Fruitland Basal Coal Pool (**74500**), comprising the following described 10,240 acres, more or less, in San Juan County, New Mexico, should be abolished. Concomitantly, the Basin-Fruitland Coal (Gas) Pool (**71629**), as heretofore classified, defined, and described, should be extended to include therein the horizontal limits comprising this same area:

TOWNSHIP 31 NORTH, RANGE 10 WEST, NMPM

Sections 3 through 6: All

TOWNSHIP 32 NORTH, RANGE 10 WEST, NMPM

Sections 19 through 22: All

Sections 27 through 34: All.

(21) Hereafter, the horizontal limits of the Basin-Fruitland Coal (Gas) Pool should comprise the following-described area in all or portions of San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico:

Township 19 North, Ranges 1 West through 6 West, NMPM;
Township 20 North, Ranges 1 West through 8 West, NMPM;
Township 21 North, Ranges 1 West through 9 West, NMPM;
Township 22 North, Ranges 1 West through 11 West, NMPM;
Township 23 North, Ranges 1 West through 14 West, NMPM;
Township 24 North, Ranges 1 East through 16 West, NMPM;
Township 25 North, Ranges 1 East through 16 West, NMPM;
Township 26 North, Ranges 1 East through 16 West, NMPM;
Township 27 North, Ranges 1 West through 16 West, NMPM;
Township 28 North, Ranges 1 West through 16 West, NMPM;
Township 29 North, Ranges 1 West through 15 West, NMPM;
Township 30 North, Ranges 1 West through 15 West, NMPM;
Township 31 North, Ranges 1 West through 15 West, NMPM; and
Township 32 North, Ranges 1 West through 13 West, NMPM.

(22) Pursuant to the Committee's application, Rules 4 and 7 of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, as amended by Orders No. R-8768-A and R-8768-B, should be amended in part to read as follows:

"RULE 4: Each standard gas spacing unit will consist of 320 acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the United States Public Lands Survey.

RULE 7 (a): WELL LOCATION

(1) A well drilled or recompleted on a standard or non-standard spacing unit in the Basin-Fruitland Coal (Gas) Pool shall be located no closer than 660 feet to the outer boundary of the spacing unit and no closer than 10 feet to any interior quarter-quarter section line or sub-division inner boundary.

(2) A well drilled or recompleted within a federal exploratory unit is not subject to the 660-foot setback

requirement to the outer boundary of the spacing unit, provided however:

- (i) the well shall not be closer than 10 feet to any section, quarter section, or interior quarter-quarter section line or subdivision inner boundary;*
 - (ii) the well shall not be closer than 660 feet to the outer boundary of the federal exploratory unit;*
 - (iii) if the well is located within the federal exploratory unit area but adjacent to an existing or prospective spacing unit containing a non-committed tract or partially committed tract, it shall not be closer than 660 feet to the outer boundary of its spacing unit;*
 - (iv) if the well is located within a non-committed or partially committed spacing unit, it shall not be closer than 660 feet to the outer boundary of its spacing unit;*
 - (v) if the well is located within a participating area but adjacent to an existing or prospective spacing unit that is not within the same participating area, it shall not be closer than 660 feet to the outer boundary of the participating area; and*
 - (v) if the well is located within an exploratory unit area but in an existing or prospective spacing unit that is a non-participating spacing unit, it shall not be closer than 660 feet to the outer boundary of its spacing unit.*
- (3) The operator filing an Application for Permit to Drill ("APD") for any well within a federal exploratory unit area that is closer to the outer boundary of its assigned spacing unit than 660 feet shall provide proof in the form of a participating area plat that such well meets the*

requirements of Rule 7 (a).

RULE 7 (b): ADMINISTRATIVE EXCEPTIONS

The Division Director, in accordance with Division Rule 104, may administratively grant an exception to the well location requirements of Rule 7 (a) upon application to the Division which includes notification by certified mail-return receipt requested to affected parties [see Division Rule 1207.A (2)].

RULE 7 (c): ESTABLISHMENT OF THE "HIGH PRODUCTIVITY AREA" AND "LOW PRODUCTIVITY AREA"

(1) High Productivity Area : There is established within the consolidated boundaries of the Basin Fruitland Coal (Gas) Pool a "High Productivity Area" consisting of the following-described acreage in both San Juan and Rio Arriba Counties, New Mexico:

Township 29 North, Range 6 West, NMPM

Sections 2 through 8: All

Sections 11 and 12: All

Sections 17 and 18: All

Township 29 North, Range 7 West, NMPM

Section 1: All

Sections 12 and 13: All

Township 30 North, Range 5 West, NMPM

Sections 19 through 21: All

Sections 29 through 31: All

Township 30 North, Range 6 West, NMPM

Sections 5 through 35: All

Township 30 North, Range 7 West, NMPM

Sections 1 through 18: All

Sections 22 through 26: All

Section 36: All

Township 30 North, Range 8 West, NMPM

Sections 1 through 4 : All

Sections 10 through 13: All

Township 30 North, Range 9 West, NMPM

Section 2: All

Township 31 North, Range 6 West, NMPM

Section 6: All

Section 31: All

Township 31 North, Range 7 West, NMPM

Section 1: All

Sections 12 through 14: All

Sections 19 through 36: All

Township 31 North, Range 8 West, NMPM

Sections 4 through 10: All

Sections 13 through 36: All

Township 31 North, Range 9 West, NMPM

Sections 1 through 7: All

Sections 11 through 14: All

Sections 22 through 27: All

Sections 34 through 36: All

Township 32 North, Range 6 West, NMPM

Section 19: All

Sections 29 through 31: All

Township 32 North, Range 7 West, NMPM

Sections 23 through 26: All

Section 36: All

Township 32 North, Range 8 West, NMPM

Section 19: All

Sections 30 through 32: All

Township 32 North, Range 9 West, NMPM

Sections 24 through 26: All

Sections 30 through 32: All

Sections 35 and 36: All

Township 32 North, Range 10 West, NMPM

Sections 7 through 12: All

Sections 14 through 25: All

Sections 28 through 30: All

Township 32 North, Range 11 West, NMPM

Sections 11 through 13: All

Section 24: All.

(2) ***Low Productivity Area*** : There is established within the consolidated boundaries of the Basin-Fruitland Coal (Gas) Pool a “Low Productivity Area” consisting of that acreage within the horizontal limits of the Basin-Fruitland Coal (Gas) Pool that is not included within the High Productivity Area described above.

RULE 7 (d): WELL DENSITY

(1) ***Well density within the “Low Productivity Area”***: No more than two (2) wells per standard 320-acre gas spacing unit may be located in the “Low Productivity Area” of the pool as follows:

(i) the ***OPTIONAL INFILL WELL*** drilled on an existing spacing unit shall be located in the quarter section not containing the ***INITIAL Fruitland coal gas well***;

(ii) the plat (Form C-102) accompanying the “Application for Permit to Drill (“APD”)” (Form C-101 or federal equivalent) for the optional infill well within an existing spacing unit shall have outlined the boundaries of the unit and shall show the location (well name, footage location, API number) of the initial Fruitland coal gas well plus

the proposed infill well; and

*(iii) any deviation from the above-described well
density requirements shall be authorized
only after hearing.*

AGREED:

FRUITLAND COALBED METHANE COMMITTEE

By: _____
Steve Hayden, Chairman
Fruitland Coalbed Methane Study Committee
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, New Mexico 87410

KELLAHIN & KELLAHIN
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

By: _____
W. Thomas Kellahin
ATTORNEYS FOR BURLINGTON RESOURCES
OIL AND GAS COMPANY AND
RICHARDSON OPERATING COMPANY

HOLLAND & HART
Post Office Box 2208
Santa Fe, New Mexico 87504-2208

By: _____
William. F. Carr
ATTORNEYS FOR BP AMERICA, INC.

Nomenclature
Case No. 12888
Order No. R-8768-C
Page 14

MILLER STRATVERT, P.A.
Post Office Box 1986
Santa Fe, New Mexico 87504-1986

By: _____
J. Scott Hall
ATTORNEYS FOR CONOCOPHILLIPS COMPANY

JOHN A. DEAN, JR., ESQ.
Curtis & Dean
Post Office Box 1259
Farmington, New Mexico 87499-1259

By: _____
John A. Dean, Jr.
ATTORNEYS FOR DUGAN PRODUCTION COMPANY

JAMES G. BRUCE, ESQ.
Post Office Box 1056
Santa Fe, New Mexico 87504-1056

By: _____
James G. Bruce

and

MODRALL SPERLING ROEHL HARRIS & SISK, P.A.
Post Office Box 2168
Albuquerque, New Mexico 87103-2168

By: _____
Larry P. Ausherman
ATTORNEYS FOR SAN JUAN COAL COMPANY

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

RECEIVED

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

FEB 28 2003

Oil Conservation Division

**CASE NO. 12888 (De Novo)
ORDER NO. R- 8768-C**

**APPLICATION OF THE FRUITLAND COALBED METHANE STUDY COMMITTEE
FOR POOL ABOLISHMENT AND EXPANSION AND TO AMEND RULE 4 AND 7 OF
THE SPECIAL RULES AND REGULATIONS FOR THE BASIN-FRUITLAND COAL
GAS POOL FOR PURPOSES OF AMENDING WELL DENSITY REQUIREMENTS FOR
COALBED METHANE WELLS, SAN JUAN, RIO ARRIBA, MCKINLEY AND
SANDOVAL COUNTIES, NEW MEXICO**

PRE-HEARING STATEMENT

As required by the New Mexico Oil Conservation Commission, this pre-hearing statement is submitted by the following parties:

- (a) Burlington Resources Oil & Gas Company LP
- (b) BP America Production Company
- (c) Devon Energy Corporation, L.P.
- (d) Williams Production Company
- (e) Koch Exploration Company, LLC
- (f) Chevron U.S.A. Inc.

PARTIES REQUESTING THE DE NOVO HEARING

BP America Production Company

Burlington Resources Oil & Gas Company LP

San Juan Coal Company

APPEARANCE OF THE PARTIES

PARTIES

Burlington Resources Oil & Gas Company LP
BP America Production Company
Chevron U.S.A. Inc.
Koch Exploration Company, LLC
Williams Production Company
Devon Energy Corporation, L.P.

ATTORNEY

Kellahin & Kellahin
Holland & Hart LLP

San Juan Coal Company

James Bruce, Esq.

Conoco/Phillips

J. Scott Hall, Esq.

STATEMENT OF THE CASE

SUBJECT OF THE DIVISION'S HEARING

(1) The applicant, the Fruitland Coalbed Methane Study Committee ("Committee"), sought a Division order amending Rules 4 and 7 of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool to authorize, subject to certain restrictions, infill drilling of up to two wells within a standard 320-acre gas proration and spacing unit by increasing the well density from the current maximum of one (1) well provided in Order R-8768, as amended, to a maximum of two (2) wells (160-acre infill) per 320-acre gas proration and spacing unit for wells located in the pool. Applicant requested the adoption of these rule changes for wells located in a "Low Productivity Area" of the pool ("LPA") and for special administrative procedures for infill wells in a "High Productivity Area" ("HPA") of the pool. Applicant also sought the termination of the Cedar Hill Fruitland Basal Coal Gas Pool and the concomitant expansion of the Basin-Fruitland Coal Gas Pool.

THE COMMITTEE'S RECOMMENDATIONS TO DIVISION

(2) Based on its study of the geological and reservoir engineering data on the Fruitland Coal formation, the Committee recommended that to increase ultimate recovery of gas from the pool Rules 4 and 7 of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool should be amended to authorize the infill drilling of an optional second well on each 320-acre gas proration and spacing unit in the pool with the second well to be located in the quarter section of the gas proration unit ("GPU") not containing the first Basin-Fruitland Coal Gas well. The Committee also recommended that the pool be divided into a HPA and a LPA based upon well producing rates of more or less than 2 million cubic feet of gas per day and that, prior to drilling an infill well in the HPA notice of the infill well be sent to adjacent operators and, if an objection to the application is received within 20 days, the application be set for a hearing before a Division Examiner.

(3) The members of the Committee were in agreement that infill drilling was needed throughout the pool. The members disagreed on whether a HPA should be created. As a compromise, the Committee proposed the creation of the HPA and the adoption of rules that provide for infill wells in this area subject to special notice to offsetting operators and possible hearings.

PARTIES APPEARING IN THE DIVISION CASE

(4) The Committee's members, including Burlington, BP America Production Company ("BP"), and Phillips Petroleum Company now known as Conoco/Phillips (referred to as "Phillips") appeared and presented evidence at the hearing. Burlington supported the recommendation of the Committee for pool-wide infill development and presented evidence in support of infill drilling in the LPA. BP supported pool-wide infill development and presented evidence in support of infill drilling in the HPA. Burlington, BP, and Williams Production Company ("Williams"), opposed the creation of the HPA, but if a HPA were created, then these parties would support the Committee compromise including special notice to operators rules. Phillips supported infill development in the LPA including infill development within the HPA but wanted an opportunity for adjacent working interest owners to file an objection and cause a hearing. In the alternative, Phillips supported further study of the reservoir. Williams, Chevron U.S.A. Inc., Dugan Production Corporation, Texakoma Oil and Gas Corporation, and San Juan Coal Company appeared at the hearing through legal counsel but did not present evidence. At the conclusion of the presentation of evidence, statements were made by Dr. Brooks Taylor, Tweetie Blancett, Bill Humphries for the New Mexico Cattle Growers' Association, Synergy Operating, Mr. Tom Mullins, Janet Reese, Alan Ralston for the San Juan Citizens' Alliance, Williams and Dugan.

PROBLEMS WITH THE DIVISION'S ORDER

(5) NMOCD Order R-8768-C adopted the Committee compromise line that divides the Basin-Fruitland Coal pool between the HPA and the LPA. This line was proposed by the Committee as part of an overall plan to infill the HPA in accordance with the administrative process that the Committee proposed. Division Order R-8768-C rejected that portion of the Committee's compromise and denied infill drilling of the HPA except after notice and hearing.

(6) The Committee met twice after the entry of the Division's order and concluded that the adoption of the line without the administrative procedure for infill drilling in the HPA created a correlative rights violation by precluding operators inside the HPA from drilling infill wells while, at the same time, allowing operators outside the line to do so. If the Commission retains the line between these two areas of the pool that line will be arbitrary unless the Commission adopts an equitable administrative procedure for allowing the drilling of infill wells in the HPA as proposed by the Committee.

THE COMMITTEE'S RECOMMENDATIONS TO THE COMMISSION

(7) The Committee recommends that the Commission revise NMOCD Order R-8768-C as follows:

"RULE 7(d) WELL DENSITY

(1) Well Density within the "Low Productivity Area":

(no changes)

(2) Well Density within the "High Productivity Area":

Delete the following:

"Only one well per standard 320-unit may be located in the "High Productivity Area" of the pool. Any deviation therefrom shall be authorized only after hearing."

Replace with the following:

- (i) The operator of an existing GPU that contains an original coal gas well who desire to drill an optional infill well shall send a copy of its Application for Permit to Drill ("APD") to adjacent operators by certified mail-return receipt advising that if they have an objection it must be filed in writing with the applicant and the District Supervisor (OCD-Aztec) within 20 days of the date the APD was mailed to them.
- (ii) they have twenty (20) days from the date this APD notice was sent to them in which to file with the applicant and with the District Supervisor (OCD-Aztec) a written objection to the application.
- (iii) An adjacent operator shall be any operator of a Basin-Fruitland Coal Gas GPU whose side boundary or corner adjoins the side boundary or corner of the quarter-section in which the proposed optional infill well is to be located.
- (iv) The District Supervisor may approve the application for permit to drill ("APD") (1) upon receipt of the APD, (2) certification by the applicant that all adjacent operators have received notification, and (3) no objection has been received within the twenty (20) day notice period.
- (v) In the event of a timely objection or at the discretion of the District Supervisor upon his own initiative, the application shall be set for a hearing before a Division Examiner."

GEOLOGIC EVIDENCE

(8) The Fruitland Coal formation is a multi-layered internally faulted reservoir with a high degree of vertical and lateral reservoir discontinuity in each coal layer across the entire San Juan Basin.

(9) The geological characteristics of the Fruitland Coal correlate across the reservoir and are similar throughout its subsurface extent.

(10) The geological characteristics of the Fruitland Coal formation can be appropriately applied across the reservoir irrespective of where in the Basin-Fruitland Coal Gas Pool they are obtained.

(11) The reservoir heterogeneities are persistent throughout the reservoir; and geological evidence cannot be used as a basis for separating the "High Productivity Area" from the "Low Productivity Area" in this pool.

(12) Reservoir discontinuities found within all of the multiple layers represented in the Fruitland Coal formation can significantly restrict the lateral flow of hydrocarbons resulting in small reservoir performance units within those layers.

(13) Approval of infill drilling in the Basin-Fruitland Coal Gas Pool is needed to enable operators to produce the recoverable reserves from the small reservoir performance units in the pool.

PETROLEUM ENGINEERING EVIDENCE

(14) Current wells are not draining the "Low Productivity Area" and infill development is needed to effectively drain the reservoir.

(15) Wells in the "High Productivity Area" of the Pool are not efficiently draining the gas reserves from all coal layers in this portion of the reservoir and there are substantial reserves that are not accessible with existing wells.

(16) Infill development of the "High Productivity Area" in the Basin-Fruitland Coal Gas Pool will result in the recovery of substantial volumes of incremental gas that will not otherwise be produced thereby preventing waste and should be approved.

(17) The committee boundary of the "High Productivity Area" in the Basin-Fruitland Coal Gas Pool is a compromise to define the area where special administrative procedures and notification to offsetting operators should be applied to infill wells.

(18) Infill drilling will recover additional reserves throughout the pool.

(19) Infill drilling of the pool is economic and will result in the recovery of reserves that otherwise would not be produced thereby preventing waste.

CONCLUSIONS

(20) The Committee's study, including the concurrent studies by operators in the pool, demonstrates that it is now appropriate to adopt and amend rules and regulations for this pool in both the HPA and LPA in order to drill more wells per GPU than is currently permitted by Rule 4 of the pool rules.

(21) Additional pilot projects and study of the Fruitland Coal formation in the HPA would not change the current understanding of this reservoir and therefore are unnecessary and should not be required.

(22) The current well density is inadequate for the pool and by allowing operators the option on a pool wide basis with some restrictions in the high productivity area, to increase well density to 2 wells per GPU creates an opportunity to substantially increase ultimate recovery from this pool which will prevent waste and protect correlative rights.

(23) The Committee's proposed amendments of the Rules and Regulations of the Basin-Fruitland Coal Gas Pool will (i) prevent the economic loss caused by the drilling of unnecessary wells, (ii) will avoid the risks associated with the drilling of an excessive number of wells, (iii) will increase the opportunity to produce new reserves and improve recovery of gas from this pool, (iv) will provide a workable, fair and efficient regulation of well locations and spacing units while preventing waste of valuable hydrocarbons and the protection of the correlative rights of the owners of that production and should be approved.

(24) There is no longer a need to maintain a separate pool for the Cedar Hill-Fruitland Basal Coal Pool. This pool should be abolished and the horizontal and vertical limits of this pool should be included in the Basin-Fruitland Coal Gas Pool.

PROPOSED EVIDENCE BY PARTIES

WITNESSES

Geology Direct

These parties estimate that it may take 1 to 2 days to present its direct geological case.
The estimated number of exhibits has not yet been determined

Dale Reitz – Geologist
Devon Energy Company

Jay Close – Geologist
Chevron U.S.A. Inc.

Rusty Reise – Geologist
BP America Production Company

Steve Thibodeaux – Geologist
Burlington Resources

Jim Fassett – USGS Retired

Eddie Pippin – Geologist
Burlington Resources

Petroleum Engineering Direct

These parties estimate that it may take 1 to 2 days to present its direct engineering case.
The estimated number of exhibits has not yet been determined

Jeff Balmer – Reservoir Engineer
Burlington Resources

Vu Dinh – Reservoir Engineer
BP America Production Company

Bill Hawkins – Reservoir Engineer
BP America Production Company

Gary Kump – Reservoir Engineer
Devon Energy Production Company, L.P.

Chris Clarkson – Reservoir Engineer
Burlington Resources

PROCEDURAL MATTERS

(1) These Parties reserve the right to call rebuttal witnesses and submit rebuttal exhibits.

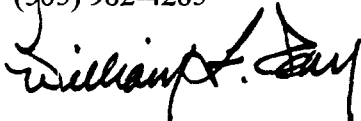
(2) These Parties will seek an order from the Commission excluding the participation of San Juan Coal Company in this matter.

(3) These parties request an order from the Commission requiring all parties to file an amended or supplemental pre-hearing statement along with copies of proposed direct exhibits not less than 10 business days prior to the start of the Commission hearing.

Respectfully, submitted:



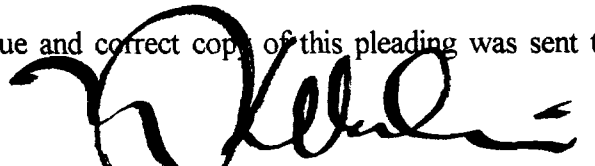
W. Thomas Kellahin, Esq.
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285



William F. Carr, Esq.
Holland & Hart LLP
P. O. Box 2208
Santa Fe, New Mexico 87504
(505) 988-4421

CERTIFICATE OF SERVICE

I, W. Thomas Kellahin, hereby certify that a true and correct copy of this pleading was sent to all attorneys of record this February 28, 2003.



W. Thomas Kellahin



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401

IN REPLY REFER TO:
3160 (07100)

FEB 11

CERTIFIED—RETURN RECEIPT REQUESTED
7160 3901 9842 1254 8364

Ms. Florene Davidson, Commission Secretary
New Mexico Oil Conservation Division
1120 S. St. Francis Drive
Santa Fe, NM 87505

Re: Bureau of Land Management, Farmington Field Office
Position concerning increased well density in the
Fruitland Coal within the "High Productivity Area"
Standard Gas Proration Unit (320 acres)
New Mexico portion of the San Juan Basin

On October 15, 2002 the New Mexico Oil Conservation Division issued a Fruitland Coal infill order (Case No. 12888, Order No. R-8768-C) allowing 160 acre spacing for all areas except the 'High Productivity' portion of the basin also referred to as the "Fairway". The Division Order states "A preponderance of the evidence [submitted] establishes that current 320-acre spacing is adequate in the High Productivity Area." The Order further declares that "Based on the relative lack of direct evidence of the potential effects from infill drilling within the High Productivity Area, it would not be prudent for the Division to amend the pool rules to provide for increased density within the High Productivity Area at this time. The more prudent course of action would be to refer the matter of infill drilling within the High Productivity Area back to the Committee for further study." The Bureau of Land Management (BLM) realizes that in certain areas of the fairway the existing well spacing is adequately draining the Fruitland Coal reservoir. The BLM also acknowledges that portions of the fairway probably require additional drilling to optimally recover the gas resource. Consequently, the BLM concurs with the order but would entertain additional forthcoming technical data that would support infill drilling in the Fruitland Fairway. The Federal lands in this area have high aesthetic appeal and are prime areas for wildlife habitat. Merely rate acceleration of gas production at the expense of additional surface disturbance is difficult to justify to the multiple users of the public lands.

Within the "High Productivity Area", the BLM reserves the right to request technical data from operators especially if the Bureau suspects that rate acceleration alone is involved in the new drill and/or additional surface disturbance is required. These data may include, but are not limited to, geologic cross-sections, reservoir isopachs, reservoir simulations and other pertinent information.

The BLM supports the orderly and efficient exploration, development and production of oil and gas on Federal and Indian lands. The BLM is responsible for managing public lands for multiple use and maximizing the resource values for the American people.

In summary, the BLM is in support of the increased well density in the Fruitland Coal formation. We encourage the development of the Fruitland Coal formation by means of re-completions in existing wellbores, commingling and drilling from existing well pads. This type of development will minimize surface disturbances, decrease development costs and maximize utilization of existing wellbores.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Henke', written in a cursive style.

Steve Henke
Field Manager

cc:

W. Thomas Kellahin
Kellahin & Kellahin
P.O. Box 2265
Santa Fe, NM 87504-2265

William F. Carr
Holland & Hart LLP
P.O. Box 2208
Santa Fe, NM 87504-2208

James Bruce
P.O. Box 1056
Santa Fe, NM 87504

Larry P. Ausherman
Moddrall Sperling Roehl & Sisk P.A.
P.O. Box 2168
Albuquerque, NM 87103-2168

Charles E. Roybal
BHP Minerals
300 West Arrington, #200
Farmington, NM 87401-8433

J. Scott Hall
Miller, Stratvert & Torgerson P.A.
P.O. Box 1986
Santa Fe, NM 87504-1986

John A. Dean Jr.
Curtis & Dean
P.O. Box 1259
Farmington, NM 87499

David K. Brooks
New Mexico Oil Conservation Division
1120 S. St. Francis Drive
Santa Fe, NM 87505